Report of Examination

of

Citizens Home Mutual Fire Insurance Company of Lincoln County, Tennessee

RECEIVED
JUN 0 2 2008
Dept. Of Commerce & Insurance
Company Examinations

H. Donald Holman, Secretary
118 West College Street
P. O. Box 469
Fayetteville, TN 37334

Examination made as of: December 31, 2006

Examiner in Charge: James T. Pearce, Examiner III

Examination commenced: May 3, 2007

Examination completed: May 15, 2008

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Date of Report: June 2, 2008

Examined as of: December 31, 2006

Last Examination as of: December 31, 2001

Honorable Leslie S. Newman
Commissioner of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner,

Pursuant to your instructions, I have made an examination and submit the following report of the conditions and affairs of the

Citizens Home Mutual Fire Insurance Company of Lincoln County, Tennessee

Fayetteville, Tennessee

Officers

Title	Name	Address	Term Expires
President	James S. Kidd	Fayetteville, TN	July 2008
Vice President	Carolyn Moyers	Fayetteville, TN	July 2009
Secretary & Treasurer	H. Donald Holman	Fayetteville, TN	July 2007

Directors:

Name	Address	Term Expires
James S. Kidd, President	Fayetteville, TN	July 2008
Carolyn Moyers, Vice President	Petersburg, TN	July 2003
H. Donald Holman, Sec. / Treas.	Fayetteville, TN	July 2004
Joe F. Askew, General Agent	Fayetteville, TN	July 2007
Betty Holman	Fayetteville, TN	July 2008

Compensation of officers, directors, appraisers, adjusters, et al:

Compensation of the Company's officers, directors and employees for the period of examination was reviewed and found to be in compliance with Tennessee statutes. See the "Comments" Section of this examination report for "Subsequent Events" information related to employee compensation.

Report of changes in the Constitution or By-Laws, policy forms, or other agreements during the period covered by this examination.

There were no changes to the By-Laws or policy forms during the period under examination.

If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report?

There were no changes to the By-Laws or policy forms during the period under examination.

Report on reinsurance assumed and / or ceded.

Previously, the Company and Farmers Mutual of Tennessee (Reinsurer) signed a Combination Per Risk / Aggregate Excess of Loss Reinsurance Contract and a Second Aggregate Excess of Loss Reinsurance Contract pursuant to Tenn. Code Ann. § 56-22-108 with an effective date of January 1, 1998. These contracts were in effect continuously from January 1, 1998 through January 1, 2004.

On June 30, 2004 and July 5, 2004 Farmers Mutual of Tennessee and the Company (respectively) signed an Excess of Loss Reinsurance Agreement with an effective date of January 1, 2004 in accordance with Tenn. Code Ann. § 56-22-108. The agreement calls for the Reinsurer to accept that portion of the Company's gross liability on any risk which exceeds its net retained liability on any one (1) specific risk and in the aggregate for all losses. The terms reflected a continuous contract until cancelled by either party with 60 days advance notice.

This Agreement contained a "Pools, Associations, Syndicates Exclusion Clause", an "Insolvency Funds Exclusion Clause", a "Nuclear Incident Exclusion Clause-Physical Damage-Reinsurance-USA" and a "Terrorism Exclusion Clause" including a "TRIA" provision.

The Company had three (3) separate sections attached to their Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee as of December 31, 2006. They are as follows: Exhibit A - Combination Per Risk / Aggregate Layer, Exhibit B - Second Aggregate Layer and Exhibit C - Third Aggregate Layer.

Type:	Exhibit A – Combination Per Risk and Aggregate Layer
Reinsurer:	Farmers Mutual Fire Insurance Company of Tennessee
Coverage:	Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $25,000 maximum retention up to the Reinsurers $75,000 maximum per risk, each loss occurrence.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 75% of the Company's gross assessment and / or premium income or $127,500 and shall not exceed 100% of the lesser of 55% of the Company's gross assessment and / or premium income or $132,000.

An annual deposit premium of $5,000 shall be paid to the Reinsurer in two (2) equal installments of $2,500 each on January 1 and July 1.

Minimum annual premium: 2% of annual gross net assessment and / or premium income

Type: Exhibit B – Second Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 125% of the Company's gross assessment and / or premium income or $200,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 125% of the Company's gross assessment and / or premium income or $200,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net assessment and / or premium income or $300,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $6,000 shall be paid to the Reinsurer in two (2) equal installments of $3,000 each on January 1 and July 1.

Minimum annual premium: $6,000

Term: Continuous coverage, effective January 1, 2004.

Estimated Gross Net Assessment and / or premium income for 2004 - $200,000

Type: Exhibit C – Third Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross assessment and / or premium income or $400,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 250% of the Company's gross assessment and / or premium income or $400,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's gross net assessment and / or premium income or $1,800,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $5,000 shall be paid to the Reinsurer in two (2) equal installments of $2,500 each on January 1 and July 1.

Minimum annual premium: $5,000

On Aril 29, 2005 and June 22, 2005 Farmers Mutual of Tennessee (reinsurer) and the Company, respectively, signed Addendum Number 1 (with an effective date of January 1, 2005) as an attachment to the Company's Excess of Loss Reinsurance Agreement. This Addendum amended the aforementioned Excess of Loss Reinsurance Agreement effective January 1, 2004 as follows:

Coverage: Exhibit A – Combination Per Risk and Aggregate Layer-2005

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 75% of the Company's gross assessment and / or premium income or $127,500 and shall not exceed 100% of the lesser of 50% of the Company's gross assessment and / or premium income or $120,000 in the aggregate on an annual basis.

An annual deposit premium of $5,000 shall be paid to the Reinsurer in two (2) equal installments of $2,500 each on March 1 and September 1.

The Estimated Gross Assessment and / or Premium Income for 2005 was $200,000.

For purposes of calculating the rate for 2005 and future years, the following Gross Net Assessments and / or Premium Income and Losses Incurred shall be deemed for the years 2001 to 2004. Actual 2005 Gross Net Assessments and / or Premium Income and Losses Incurred shall be included in the 2005 rate calculation when finally determined:

Year	Gross Assessments
2001	$188,410
2002	$191,453
2003	$195,720
2004	$192,828

Type: Exhibit B – Second Aggregate Layer-2005

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 125% of the Company's gross assessment and / or premium income or $200,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 125% of the Company's gross assessment and / or premium income or $200,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net assessment and / or premium income or $300,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $6,000 shall be paid to the Reinsurer in two (2) equal installments of $3,000 each on March 1 and September 1.

Minimum annual premium: $6,000.

Type: Exhibit C – Third Aggregate Layer-2005

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross assessment and / or premium income or $400,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 250% of the Company's gross assessment and / or premium income or $400,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's gross net assessment and / or premium income or $1,800,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $5,000 shall be paid to the Reinsurer in two (2) equal installments of $2,500 each on March 1 and September 1.

Minimum annual premium: $5,000.

Appraisal and classification of risks taken.

Policies are typically written for the full value of the property insured subject to policy limits of $25,000 per risk before reinsurance. The agent performs the appraisal on the property prior to the issuance of a policy during the application process. Property eligible to be insured includes farm dwellings (and all household goods), farm machinery, livestock, country stores (commercial property), churches, private residences and contents including owner and tenant occupied mobile homes.

The Company writes policies covering property located in Bedford, Coffee, Franklin, Giles, Grundy, Lawrence, Lincoln, Maury, Marshall and Moore counties. See the "Comments" and "Recommendations" section under the "Subsequent Events" heading of this report for further information.

Annual rate of assessment per $1,000.00 for period covered:

The Company uses a multi-table rate schedule for non-farm "owner occupied" and "non-owner occupied" frame or masonry constructed dwellings and contents. "Owner occupied" and "non-owner occupied" frame or masonry constructed dwellings are charged a separate rate for fire and "extended coverage" and household contents. "Extended coverage" is composed of one (1) premium rate for wind and hail damage combined. Fire rates for dwellings range from $0.31 per $1,000 to $1.49 per $50,000. Dwelling contents rates for fire range from $0.35 per $1,000 to $6.72 per $50,000. "Extended coverage" wind and hail damage rates for dwellings range from $0.566 per $1,000 to $1.685 per $50,000. "Extended coverage" wind and hail damage rates for personal property range from $0.17 per $1,000 to $8.42 per $50,000. Rates charged are on a sliding scale from $1,000 to $50,000 per risk insured and include additional premium for each additional $10,000 in coverage above $50,000.

The Company uses different rate schedules for different types of farm buildings and farm personal property. The Company's rates for different types of farm buildings and farm personal property vary based upon the amount of deductible the policyholder chooses. Farm buildings and farm personal property deductibles range from $50.00 to $500.00. A new farm policy does not qualify for a $50.00 deductible or related premium rate.

The Company's rating schedule also takes into account the level of risk based upon whether or not the risk is more or less isolated in rural areas where fire department availability is reduced. During the period of examination (2002 through 2006) the Company charged $20 per $1,000 covered for owner occupied mobile homes and $25 per $1,000 covered for tenant occupied mobile homes.

The Company filed its premium rates with the Property and Casualty Rating Section of the Tennessee Department of Commerce and Insurance (Department) on November 27, 2006. The Department granted approval of the Company's rating schedule on December 12, 2006.

Rate of membership, policy and initial fees charged.

No membership or policy fees are charged.

Date of last assessment.

The Company during the period of examination did not assess its policyholders for any additional premium above the standard amount billed for that specific type of risk based upon their rate schedule. Policies are written for one, two, and three years. Premiums are due on the anniversary date of the policy.

Amount delinquent.

There have never been any delinquencies. The Company sends a past due notice approximately 30 days and then 60 days after the premium due date (policy anniversary date). The Company cancels policies if assessments are not paid within ten days of cancellation notification for mortgaged property and five days of non-mortgaged property.

Did that assessment provide for all losses, expenses and other liabilities, including borrowed money?

The Company's profitability during the period of examination is reflected in the following table:

	2002	2003	2004	2005	2006*
Gross Assessments	$191,453.32	$195,720.32	$192,827.58	$189,927.42	$178,165.61
Less: Losses & Expenses	(211,957.59)	(216,876.85)	(217,790.99)	(163,808.07)	(180,522.24)
Underwriting Gain/(Loss)	(20,504.27)	(21,156.53)	(24,963.41)	26,119.35	(2,356.63)
Investment & Other					
Income	27,843.86	23,215.37	21,942.67	24,121.16	21,224.27
Net Income / (Loss)	$7,339.59	$2,058.84	($3,020.74)	$50,240.51	$18,867.64

* These income, expense, profit and loss totals were determined as a result of this examination.

Amount of money borrowed since date of last assessment.

The Company did not borrow any money during the period of examination.

Exhibit of Risks

		Amount
1.	In force, December 31, 2005	$14,378,828.50
2.	Written	2,115,500.00
3.	Total	16,494,328.50
4.	Deduct those expired and marked off as terminated	2,470,850.00
5.	In force, December 31, 2006	$14,023,478.50

Financial Statement

Income

Ledger Assets per Company, December 31, 2005		$691,657.78
Gross Assessments	$178,165.61	
Deduct : Reinsurance Premiums Ceded	(14,244.56)	
Net Assessments	163,921.05	
Investment Income Received	21,224.27	
TN Farmer Mutual Liability Premium Collected	(1,611.50)	
Total Income per Exam		183,533.82
Total Income and Balance		875,191.60

Disbursements

Gross amount paid policyholders for losses	32,260.39	
Expenses of adjustment and settlement of losses	2,406.50	
Agents Commissions	44,484.66	
Salaries and compensation of officers, directors, & employees	56,722.50	
Advertising	634.05	
Printing and stationery	377.61	
Postage	1,146.00	
Telephones and express	2,833.62	
Professional Fees	3,122.00	
Depreciation on Furniture & Fixtures	256.00	
P. O. Box & Bank Lock Box Rent	179.00	
Insurance department licenses and fees	391.42	
Social Security & Medicare Tax	3,884.76	
Federal Unemployment Tax	244.64	
Tennessee Unemployment Tax	102.65	
Property Taxes	1,840.00	
Other office supplies	334.00	
Miscellaneous	3,856.75	
Dues	1,574.00	
Insurance	578.00	
Charity Contributions	70.00	
Building Expenses	4,298.58	
Janitorial Expense	305.69	
Utilities	2,763.36	
Total disbursements		164,666.18
Ledger Asset Balance per Exam Before Adjustments		710,525.42
Examination Adjustment to Assets and Surplus		(18,951.01)
Admitted Ledger Assets per Exam after Adjustment		$691,574.41

Assets

Book Value of Real Estate	$78,146.38
Cash in Company's Office	236.97
Cash in Bank (Regions Checking)	107,556.75
Certificates of Deposit (with local banks)	520,910.29
Furniture and Fixtures	1,692.72
Office Supplies and Pre-paid Postage	1,982.31
Total Assets per Examination	$710,525.42

Assets Not Admitted

Book Value of Real Estate in Excess of 10% of Admitted Assets per Exam	8,290.38
Furniture and Equipment	1,692.72
Office Supplies and Pre-paid Postage	1,982.31
Total Assets Not Admitted per Examination	11,965.41
Total Admitted Assets per Examination	$698,560.01

Liabilities

Total Liabilities per Examination	-0-
Surplus Over all Liabilities per Eexam	$698,560.01
Total Liabilities and Surplus per Examination	$698,560.01

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
Regions Bank , Business Checking	$110,786.56	($3,229.81)	$0.00	$107,556.75

Certificates of Deposit:

Bank of Lincoln County	$100,000.00	$100,000.00
FirstBank (formerly AmSouth Bank)	15,000.00	
	13,229.49	
	63,580.22	
	8,300.00	
	20,000.00	120,109.71
First National Bank of Fayetteville, TN	20,000.00	
	21,140.87	
	28,000.00	
	21,101.82	
	10,000.00	100,242.69
Regions Bank (formerly Union Planters)	21,000.00	
	19,000.00	
	10,000.00	
	50,000.00	100,000.00
US Bank (formerly Firstar Bank)	15,552.21	
	15,000.00	
	20,000.00	
	50,005.68	100,557.89
TOTAL CERTIFICATES OF DEPOSIT		$520,910.29

Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon:

Real Estate:

Home Office Land and Building (less depreciation per Exam)	$78,146.38
Less: Book Value of Real Estate in Excess of 10% of Admitted Assets per Exam	(8,290.38)
Net Admitted Value of Home Office Land and Building (less depreciation per Exam)	$69,856.00

Assets pledged or hypothecated:

NONE

Comments on claims, borrowed money and other liabilities:

Claims appeared to be paid promptly and to the satisfaction of policyholders.
The Company borrowed no money during the period of examination.

Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business:

Investment in Home Office Land and Building:

The Company's depreciated value of its home office land and building as of year-end 2006 as stated on line 42 under the IV - Assets Section of its 2006 Annual Statement was $78,146.38. The Company non-admitted an additional $16,795.24 from its gross admitted balance as shown on the Assets Not Admitted Section of its 2006 Annual Statement for a net admitted total of $61,351.14.

However, the net admitted total per examination of the Company's home office land and building as of year-end 2006 was determined to be $69,856.00 or $8,504.86 more than the $61,351.14 net admitted total shown on the Company 's 2006 Annual Statement. The examination total of the Company's admitted assets exclusive of real estate was $628,704.01. The Examiner calculated 10% of admitted assets exclusive of real estate in accordance with Tenn. Code Ann. § 56-3-405(1) in order to determine the Company's net admitted total per examination for the Company's home office land and building as of year-end 2006.

Agreements with Outside Agencies:

In addition to the Company's General Agent, the Company allows five (5) other insurance agencies (Richardson Real Estate and Insurance of Fayetteville, TN, Alsup and Associates of Pulaski, TN, Bagley and Bagley Insurance of Fayetteville, TN, Massey Insurance of Fayetteville, TN and Dixie Smith Insurance of Fayetteville, TN) to write business on behalf of the Company. The amount of commissions paid by the Company to its General Agent is equal to 25% of the premiums received on new and renewal policies. The amount of commissions paid by the Company to its outside agents are equal to 15% of the premiums received on new and renewal policies and the Company's General Agent receives 10% of the premiums received on new and renewal policies written by outside agents. The Company's agents remit all premiums collected in full to the Company and the Company in turn remits a commission payment to the producing agent on a monthly basis (outside agent) and bi-monthly to the Company's General Agent.

The Company did not have any written agreement with outside agents for the issuance of policies or the collection of premium on behalf of the Company.

Policy Fees

Article 7 of the Company's bylaws provides that, at the time of making application for insurance the applicant shall pay to the Company a policy fee. Such fee is to cover the expense of taking applications, writing the policy, etc., and in the event the application is rejected and no policy of insurance written, such amount shall be returned to the applicant. Company officials stated that the Company does not collect application fees from new policyholders.

Business Insurance

The Company as of year-end 2006 was covered by a "businessowners policy" issued by Westfield Insurance Company. This policy provided coverage for the Company's building, building personal property, business liability, medical expenses, fire legal liability, terrorism, forgery and alteration, money and securities (inside and outside premises), accounts receivable, ordinance or law, outdoor signs and valuable papers and records. Westfield Insurance Company is a licensed property casualty insurance company in the State of Tennesseee.

Subsequent Events:

New Legislation Requirements for County Mutual Insurance Companies:

"The Tennessee County Mutual Insurance Company Act of 2006" required the Company to make certain changes to their Charter, By-Laws, Application Forms, Policy Forms, Claim Forms, Stationary, etc. with the approval of the Tennessee Department of Commerce and Insurance (TDCI) prior to the January 1, 2007 effective date. Another important change involves the submission of future annual statements in accordance with NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual, pursuant to Tenn. Code Ann. § 56-22-109.

Revision of Constitution and By-Laws:

The Company's Constitution and By-Laws did not include the non-renewal provisions denoted in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. §56-7-1902(a) states "(a) Unless the non-renewal notice contains a reason for such non-renewal action, such notice shall advise the insured that upon written request of the named insured, mailed or delivered to the insurer not later than fifteen (15) days after the effective date of the non-renewal, the insurer will within twenty (20) days mail to the named insured a written statement specifying a reason for such non-renewal action." Tenn. Code Ann. §56-7-1902(b) states "(b) There shall be no liability on the part of, and no cause of action of any nature shall arise against, any insurer, its authorized representative, its agents, its employees, or against any firm, person or corporation furnishing information to the insurer, as to the reason for non-renewal".

Revision of Policy Forms:

The Company's policy form provided to the Examiner did not reflect the cancellation and non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). See the "Revision of By-Laws" comment above for the non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902.

Compensation Expense Ratio:

The Department issued and approved new rules governing Tennessee "county mutual" insurance companies that became effective January 2, 2008.

Tenn. Comp. R. & Regs., 0780-1-78-.02(2) defines "Compensation expense ratio" as "the ratio of the total compensation (including, but not limited to, salaries, commissions, insurance benefits and retirement account contributions, as well as all local, state and federal taxes associated with such compensation) paid to all officers, directors, employees, and other individuals who exercise authority over the underwriting decisions of a county mutual insurance company to the total gross premium of the county mutual insurance company". The Company's total 2006 compensation as defined by Tenn. Comp. R. & Regs., 0780-1-78-.02(2) was $101,847.13.

Tenn. Comp. R. & Regs., 0780-1-78-.02(5) defines "Gross premium" as "maximum gross premiums as provided in the policy contracts, new and renewal, including policy or membership fees, whether paid in part or in whole by cash, automatic premium loans, dividends applied in any manner whatsoever, and without deduction or exclusion of dividends in any manner, but excluding premiums returned on cancelled policies, on account of reduction in rates, or reductions in the amount insured". The Company's total 2006 "gross premium" as defined by Tenn. Comp. R. & Regs., 0780-1-78-.02(5) was $178,165.61. Thirty percent (30%) of $178,165.61 is $53,449.68.

Tenn. Comp. R. & Regs., 0780-1-78-.03(1) states "No county mutual insurance company's compensation expense ratio may exceed thirty percent (30%) for any given year". The rule further states "Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for any given year shall be considered to be operating in a hazardous financial condition".

Therefore, based upon the 2006 information provided to the Examiner by the Company the Company's "compensation expense ratio" was fifty seven percent (57%) of "gross premium" as defined by the rule. If this rule would have been in effect in 2006 the Company would have been in violation of Tenn. Comp. R. & Regs., 0780-1-78-.03(1) and would be "operating in a hazardous financial condition" as defined by Tenn. Comp. R. & Regs., 0780-1-78-.03(2).

The Company should take the necessary steps in order to make sure that it is in compliance with said rule.

<u>Use of Company's Office by the Director / General Agent:</u>

Subsequent to the December 31, 2006 date of examination and during the period of examination (2002 through 2006) a Director of the Company who was also employed by the Company to perform the duties of General Agent also owned and operated an insurance agency in the Company's office building located at 118 West College Street, Fayetteville, Tennessee. Prior to the period of examination the directors of the Company collectively verbally agreed to allow the Company's director / agent to conduct insurance agency operations in the Company's office building. The Company's Director / General Agent informed the Examiner that the use of the Company's building for his insurance agency's operations was part of his compensation package from the Company.

The Company's Board of Directors met on August 13, 2007 and issued a formal written statement confirming that the Company's Director / General Agent receives permission to conduct the operation of his wholly owned insurance agency in the Company's building as a part of his compensation for performing the duties of Director and General Agent.

<u>Operation of County Mutual in Contiguous Counties:</u>

As previously stated in this exam report the Company writes business in Bedford, Coffee, Franklin, Giles, Grundy, Lawrence, Lincoln, Maury, Marshall and Moore counties. Tenn. Code Ann. § 56-22-106(f)(1) (effective January 1, 2007) allows the Company to issue policies of insurance on property located in the county in which its principal place of business is located and in all those counties contiguous to the county in which its principal place of business is located. However, Tenn. Code Ann. § 56-22-106(f)(1) only allows the Company authorization to extend its operation to counties contiguous to the county in which its principal place of business is located in the second degree if the Company has a surplus of at least seven hundred fifty thousand dollars ($750,000) and if the Company has received the express written permission of the Commissioner of the Department. The Company's current territory extends to the second degree and the Company's admitted surplus per examination was $698,560.01.

Tenn. Code Ann. § 56-22-106(f)(3) states "Any county mutual insurance company not meeting the requirements of subdivision (f)(1) by December 31, 2010, must begin the process of winding down its business in those counties in which it is not lawfully permitted to do business under this section, with winding down to be completed by December 31, 2011".

Recommendations:

1. Investment in Home Office Land and Building:

It is recommended that the Company fully disclose the depreciated book value of its real estate at 10% of admitted assets upon excluding real estate from the calculation pursuant to T.C.A. §56-3-405 and NAIC Statements of Statutory Accounting Principals SSAP # 19 and SSAP # 40 on future Annual Statement filings with the Department.

Subsequent Events:

New Legislation Requirements for County Mutual Insurance Companies

2. Revision of Constitution and By-Laws:

It is recommended that the Company amend its Constitution and By-Laws to include the non-renewal provisions contained in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007).

3. Revision of Policy Forms:

It is recommended that the Company update its policy forms to reflect the cancellation and non-renewal provisions of Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007)

4. Operation of County Mutual in Contiguous Counties:

It is recommended that the Company comply with Tenn. Code Ann. § 56-22-106(f)(1) and Tenn. Code Ann. § 56-22-106(f)(3) (effective January 1, 2007) by the by December 31, 2011 deadline.

There were no other apparent violations of the Company's By-Laws, Tennessee Insurance Code or NAIC Accounting Practices and Procedures during the period under examination.

The complete and courteous cooperation of Mrs. Carolyn Moyers, Bookkeeper and Mr. Joe F. Askew, General Agent, extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce

James T. Pearce,
Insurance Examiner in Charge
State of Tennesseee

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached examination report of The Citizens Home Mutual Fire Insurance Company of Lincoln County, Tennessee dated June 2, 2008 and made as of December 31, 2006, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

James T. Pearce

James T. Pearce
Insurance Examiner III
State of Tennessee

County Davidson
State Tennessee
Subscribed and sworn to before me
this 2nd day of
June, 2008.

Helen W. Dorsey
(Notary)

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

6-17-08 FAX Attn: Philip Blustein
(2 pages)

CITIZENS HOME MUTUAL FIRE INSURANCE COMPANY
118 West College Street 931-433-5115 P. O. Box 469
Fayetteville, Tennessee 37334

(A COUNTY MUTUAL INSURANCE COMPANY)

June 13, 2008

Honorable Leslie S. Newman
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, TN 37243

RE: Financial Condition Examination of Citizens Home Mutual Fire Insurance Company as of December 31, 2006

Dear Commissioner Newman:

In response to the letter from Mr. Philip Blustein, Insurance Examinations Director, we have studied the report with great care and we are in the process of taking the necessary steps to comply.

In regard to Item # 1 (Investment in Home Office Land and Building) we have spoken to our Certified Public Accountant and will abide by the rules on future annual statement filings.

In regard to Items # 2 and 3, we have spoken to Mr. James Pearce with the Department of Insurance about how to make these revisions and will proceed to make necessary changes in accordance with Tennessee Code Anotated.

In regard to Item # 4, operation of county mutuals in contiguous counties, we have discussed the recommendation and feel it would be in the best interest of the company to discuss this further with you either by mail or by phone. We feel there are some points regarding this matter that should be brought to your attention.

Also, in regard to the 30% rule, compensation expense ratio, we have spoken to others that would be affected by this law and we all feel that 30% is not a realistic fugure. When we first met to discuss the new laws, it was our understanding that commissions would not be included in the new ruling. We would greatly appreciate the opportunity to speak to you further about this ruling.

We will strive to keep all expenses as low as possible and as always, it is our goal to continue to serve our insureds in a fair and efficient manner.

Respectfully yours,

James S. Kidd, President

H. D. Holman, Secretary-Treasurer

cc: Philip Blustein, CFE
Insurance Examination Director
State of Tennessee
Dept. of Commerce and Insurance